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MAY 1980 SURVEY

Surveys of Consumer Attitudes

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UNFAVORABLE BUYING ATTITUDES CONTINUE TO MOUNT

**In the May 1980 survey, the Index of Consumer Sentiment was 51.7, down 1 Index point from the 52.8 recorded in April 1980, and 16 points below a year ago. This represents the third consecutive month that the Index was below its prior record low of 58.0 recorded in 1974-75. The largest declines in the May survey involved attitudes towards buying conditions for durables and motor vehicles.

**Among families with incomes of $20,000 or more the Index was 55.2, up somewhat from the 52.5 recorded in April 1980, but 18 Index-points below the May 1979 reading.

**A new record level of pessimistic business expectations was recorded in the May 1980 survey. Among all consumers:

- 90 percent said business conditions had worsened during the past year, more than ever recorded (89 percent in February 1975).
- 82 percent expect bad times financially in the economy as a whole during the next 12 months, significantly above the prior record level of 70 percent recorded in February 1975.
- 72 percent expect unemployment to increase during the next 12 months, significantly above the prior record level of 63 percent in November 1974.

**In contrast to the sharp declines in the outlook for the economy due to fears of unemployment, price and interest rate expectations have moderated in recent months.

**Unfavorable assessments of market conditions have increased sharply in recent months, and have pushed buying attitudes to new record low levels.

- 58 percent rated buying conditions for household durables in May 1980 as unfavorable, above the prior record level of 35 percent in November 1974.
- 74 percent rated house buying conditions as unfavorable in May 1980, above the prior record of 71 percent in late 1974.
- 61 percent rated buying conditions for vehicles as unfavorable in May 1980, nearly equal the late 1974 record level of 62 percent.

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Consumers were more pessimistic in the May 1980 survey than ever before observed in the history of these surveys. Concern with spreading unemployment rather than fear of inflation has been more responsible for lowered confidence in recent months. Although severely depressed before the March announcement, concern with credit conditions led to an accelerated deterioration in favorable buying attitudes. The deep declines will not easily nor quickly yield to sustained improvement. Inflation pinched budgets and depleted savings and reserve funds will force relatively greater reductions in discretionary purchases. Use of credit and debt is likely to remain at depressed levels in the near term due to uncertainty about its use, as well as the widespread expectation of lower interest rates. Sustained improvement in consumer confidence can only take place when consumers perceive effective action to slow and reverse the downward trends in employment and incomes.

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New Record Lows

The March through May Surveys of Consumer Attitudes have documented the most pessimistic attitudes and expectations recorded in more than a quarter-century. Although already at greatly depressed levels at the start of 1980, the Index and all of its components were above prior record lows. After falling 15 Index points during the past three months, the May 1980 Index figure was 6 points below the prior record low recorded in 1974-75 (see Table A below). From February to May 1980 favorable attitudes toward buying conditions fell by 60 Index points (from 134 to 77), moving from 38 Index points above the prior record low to 19 Index points below. Concern with tight credit conditions and high interest rates, coupled with fears of spreading unemployment, are responsible for both the steep recent slide in consumer sentiment as well as the establishment of new record low levels.

During the past year, buy-in-advance price rationales have been offset and replaced by concern with tight credit conditions and high interest rates. This shift occurred first in the housing market in early 1979, followed by the auto market in late 1979, and during the past several months, in the household durable goods market. The announced credit control program in March 1980 has greatly accelerated this shift from buy-in-advance price rationales to postponement because of credit considerations.

TABLE A

		Index Components[a]				
		Current		Expected		
	Index	Personal Finances	Buying Conditions	Personal Finances	12-Month Business	5-Year Business
October 1974-February 1975 Low	58.0	81	96	99	45	47
February 1980 Survey	66.9	85	134	99	55	60
Difference from 1974-75 Low	(+8.9)	(+4)	(+38)	(0)	(+10)	(+13)
March 1980 Survey	56.5	76	116	92	38	41
Difference from 1974-75 Low	(-1.5)	(-5)	(+20)	(-7)	(-7)	(-6)
April 1980 Survey	52.8	73	94	94	32	45
Difference from 1974-75 Low	(-5.2)	(-8)	(-2)	(-5)	(-13)	(-2)
May 1980 Survey	51.7	79	77	100	31	44
Difference from 1974-75 Low	(-6.3)	(-2)	(-19)	(+1)	(-19)	(-3)
Total 3-Month Change	-15.2	-6	-60	+1	-24	-16

[a]Table entries are the sample proportion giving favorable replies minus the proportion

Personal Finances Bleak

A small and insignificant improvement in personal financial attitudes was recorded in the May 1980 survey over the March and April 1980 record lows. The small shift acts to confirm the persistence of attitudes at near-record low levels rather than indicating potential reversal of these steep losses. The near majority (47 percent) continued to report being worse off financially compared with a year earlier, and one-in-four families (27 percent) expect their financial situation to worsen in the year ahead. These figures have remained largely unchanged during the past three months. In explaining their financial situation, somewhat fewer families mentioned receiving income increases in May 1980 (25 percent) than in February 1980 (31 percent), and somewhat fewer mentioned price increases as making them worse off in May 1980 (41 percent) than in February 1980 (45 percent). The slowdown in the rate of inflation since early 1980 may have accounted for this small but negligible improvement.

When asked in April and May 1980 whether they had put more money in or taken more money out of their savings and reserve funds during the past year, the majority of households reported declines in savings. In May 1980, 50 percent of all households said that they had taken more money out of their savings during the past year, up from 46 percent in February 1979, and 12 percent of all families in May 1980 said that they had no savings, up from 10 percent in February 1979. Importantly, 23 percent of all respondents in May 1980 reported that their savings and reserve funds had declined by unusually large amounts during the past year, up from 15 percent recorded in February 1979.

TABLE B

CHANGE IN SAVINGS AND RESERVE FUNDS

Change in Household Saving	Feb. 1979	April 1980	May 1980
Put more money in	28%	20%	21%
Typical increase	21	13	15
Unusually large	7	7	6
Stayed the same	13%	17%	16%
Took more money out	46%	52%	50%
Typical decrease	31	28	27
Unusually large	15	24	23
Has no savings	10%	11%	12%
Don't know; not ascertained	3	*	1
Total	100%	100%	100%
Cases	1361	719	703

* Less than 0.5 percent.

The questions were: "Considering all of your savings and reserve funds, overall, did you put more money in or take more money out in the last year?" (IF PUT MORE MONEY IN OR TOOK MORE MONEY OUT) "Was this an unusually large (increase/decrease) in savings or was it rather typical for you?"

Fear of Spreading Unemployment

When asked whether they had heard of any recent changes in business conditions, seven-in-ten respondents reported hearing news of changes, with mentions of unfavorable news almost 10 times more frequent than favorable news (97 versus 10 percent). News reported in the May survey was dominated by mentions of spreading unemployment. During the past three months there has been a rapidly growing awareness that the economy is in recession. In May 1980, 90 percent of all families reported current business conditions were worse than those a year earlier, up from 80 percent in April, and 67 percent in February 1980. At no time in the history of these surveys has a greater proportion of consumers reported deterioration in business conditions--the prior record of 89 percent was recorded in February 1975.

Business prospects for the next twelve months were viewed with growing pessimism. Bad times financially in the economy as a whole during the next twelve months were expected by a record-setting 82 percent of all families in May 1980. At the most pessimistic point in the 1974-75 recession, 70 percent expected bad times financially in the economy as a whole. Unfavorable expectations have increased significantly since February 1980, going from a majority view (67 percent) to a more nearly consensus view (82 percent). Long-term business prospects also remained quite pessimistic, as 71 percent of all families in May 1980 expected bad times financially during the next five years in the economy as a whole, up from 61 percent in February 1980.

Sharp increases in pessimistic business expectations were due to heightened fears of unemployment. In the May 1980 survey, 72 percent expected unemployment to increase during the next year, up from 62 percent in April and 46 percent in February 1980. At its worst in the 1974-75 recession, 63 percent of all families expected increased unemployment, significantly fewer than the 72 percent recorded in May 1980.

Price and Interest Rate Expectations Moderate

In the May 1980 survey, interest rates were expected to decline in the year ahead by the majority of all respondents. Overall, just 26 percent reported that they expected interest rates to increase, down from 56 percent in April 1980, and 71 percent in March 1980. For the first time since February 1975 (when 53 percent expected interest rate declines), a majority (52 percent) expect interest rate declines, up from 24 percent in April, and 10 percent in March 1980. The recent monetary policy announcements in November of 1979 and March of 1980 have both led in the following several months to reduction in interest rate expectations.

Price expectations were also markedly lower in the May 1980 survey. Overall, consumers expected price increases to average 8.2% during the next twelve months, down from 11.1% in April 1980, and 12.0% in March 1980. During the past three months, the proportion of respondents who expect inflation to average 10% or more fell from 50 percent in February to 35 percent in May 1980.

When asked whether inflation or unemployment was the more serious problem facing the nation, a near-even split in opinion was recorded in the May 1980 survey--inflation was thought more serious by 43 percent and unemployment was reported being more serious by 40 percent. This represents a significant shift in overall opinion from prior surveys, when inflation rather than unemployment was chosen as the more serious problem by a margin of 68 to 24 percent in February 1980, and 68 to 18 percent in May 1979.

In the May 1980 survey confidence in government economic policy to combat inflation and unemployment returned to the low levels first recorded in mid-1979. Among all families, 45 percent felt the government was doing a poor job, up from 31 percent in January 1980 and comparable to the high of 48 percent recorded in July 1979. Just 5 percent of all families in May 1980, as well as in July 1979, felt that the government was doing a good job in combating inflation or unemployment.

Unfavorable Buying Attitudes Reach New Record Levels

Unfavorable attitudes toward buying conditions for household durables and houses reached new record levels in the May 1980 survey. Among all families, 58 percent felt buying conditions for household durables were unfavorable in May 1980, significantly above the prior record levels of 41 percent in October-November 1970, and 35 percent in October-November 1974. In both the April and May 1980 surveys, 74 percent of all families rated buying conditions

for houses as unfavorable, somewhat above the prior record level of 71 percent recorded in October-November 1974. Unfavorable attitudes toward buying conditions for vehicles were held by 61 percent of all families in May 1980, nearly equal the record level of 62 percent recorded in October-November 1974.

Unfavorable attitudes toward buying conditions for household durables have doubled in frequency during the past three months, going from 26 percent in February to 58 percent in May 1980. Similarly, the proportion holding favorable attitudes toward market conditions for durables declined from 60 percent in February to 35 percent in May 1980. A major reason underlying this shift in opinion was tight credit conditions and high interest rates. Among all respondents, 28 percent mentioned credit conditions when explaining why they felt buying conditions were unfavorable, up from 9 percent in February 1980--prior to the March credit policy announcement. In addition, the appeal of buy-in-advance rationales continues to diminish, with just 23 percent mentioning this rationale in May, down from 33 percent in February 1980, while postponement due to high prices rose in frequency from 16 percent in February to 34 percent in May 1980.

The decline in attitudes toward buying conditions for vehicles accelerated during the past several months. In May 1980, 61 percent of all families rated buying conditions for vehicles as unfavorable, up from 45 percent in February 1980. The sharp increase in unfavorable attitudes was mirrored by the increase in mentions of high interest rates and tight credit conditions. In the May survey, 29 percent of all families mentioned credit considerations when explaining why they felt buying conditions for vehicles were unfavorable, more than twice the 14 percent recorded in February 1980. It should be noted, however, that credit considerations have significantly affected attitudes toward market conditions for vehicles since November 1979, when 18 percent mentioned these considerations when evaluating marketing conditions. In comparison with a year ago, just 6 percent of all families mentioned credit when evaluating vehicle market conditions. Buy-in-advance psychology held practically no appeal in May 1980 (8 percent) compared with the dominance of postponement in reaction to high prices (30 percent)

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The May 1980 survey included 703 completed interviews conducted between April 21 and May 21, 1980.